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RUEHSF/AMEMBASSY SOFIA 0867
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SUBJECT: C MARKET - TYPICAL TYCOON PRIVATIZATION

Summary

¶1. Rival Serbian Tycoons Beko and Miskovic, agreed in August 2005, reportedly at Prime Minister Kostunica's initiative, to jointly take over C-Market, the largest retail chain in Serbia. The agreement was used to chase out other bidders via back-room advice, an official ruling of the Securities Commission and intimidation. As the sole bidder, Beko-Miskovic's company acquired it at less than market value, later earning at least EUR 150 million. The back-room procedures in this case illustrate how many lucrative privatizations went awry in the post-Milosevic era.
End Summary.

Beko Testimony Enlightens C-Market Privatization

¶2. The sworn testimony of Milan Beko, now a leading democratic government financier, on August 12 in the "bankruptcy mafia" court case, highlighted the back-room dealings in the privatization and later takeover of C-Market - Serbia's largest retailer. Beko's statement was used by the Anti-Corruption Council to bolster their two-year-old complaint about the C-Market privatization and reignite the issue. Beko is known as the "businessman from a shadow," a former Milosevic Privatization Minister and the behind-the-scenes buyer of several Serbian companies. Miroslav Miskovic, former Milosevic DPM, the only Serb on the Forbes list of the richest people in the world - 891st, and owner of Delta Holding the largest and most profitable Serbian-owned company, collaborated with Beko in the C-Market purchase.

Beko & Miskovic Agreement Kostunica's Idea?

¶3. In a September 21 conversation with Econoff, the Anti-Corruption Council head corroborated Beko's testimony and documents presented in the court case attesting to the fact that the two major Serbian competitors interested in C-Market takeover, Beko and Miskovic, met with then C-Market Director Slobodan Radulovic and Danko Djunic (former Deloitte & Touche Managing partner, former Milosevic DPM, and former AmCham President) on August 19, 2005 at Prime Minister Kostunica's initiative. The four of them signed a Memorandum of Understanding (MOU) that stipulated steps that would result in acquisition of majority C-Market shares via:

-- purchase of shares distributed free to C-Market workers by one of

the earlier Milosevic' era privatization laws - around 75% of shares;

-- purchase of state-owned shares; and

-- additional capitalization.

¶4. The acquisition would result in 60/40 C-Market ownership split between Beko and Miskovic in favor of Beko. The whole operation was to end in the period between August 2007 and February 2008 when Miskovic would buy out all Beko's shares, or both could sell it to a third party.

Eliminate Competition: With Intimidation ...

¶5. The third signatory of the MOU - C-Market Director Radulovic was also involved in the purchase but, according to a letter he sent to the Anti-Corruption Council, a month before the memorandum was signed, Radulovic was invited to an interview with Interior Minister Jovic and was told that C-Market must be sold to a "domestic company." At this meeting Radulovic was intimidated by threats that certain information about his family would be published if he did not cooperate. The press has speculated that Radulovic then made a deal to leave the country without being prosecuted for the mismanagement of C-Market and EUR 20 million losses he generated in the company by over invoicing to his daughter's company - a supplier of C-Market. Radulovic remains outside Serbia while Minister Jovic replied to the accusations by inviting Radulovic to come back to Serbia and explain (and be arrested).

Or Friendly Advice, and a Convenient Court Ruling

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¶6. The MOU then was used to chase away other interested investors - Slovenian Merkator and British Investment Fund Ashmore. Merkator gave up the acquisition after a few meetings between Beko and Merkator representative Zoran Jankovic, which Beko confirmed in his testimony. However, Beko denied that he influenced the Merkator decision. Merkator's official explanation was that the company chose not to bid due to an "unfavorable climate created in the public." The Ashmore Fund was disqualified from the bidding by a Securities Commission decision as their offer and bank guarantees were not from the same legal entity. As the sole bidder, joint company of Beko and Miskovic purchased in December 2005 75% of C-Market shares for \$53 million - a price estimated by an Anti-Corruption Council economist to be four times lower than actual market value.

¶7. Small shareholders had no option to sell their shares at the Stock Exchange due to the commercial court's prohibition. Small shareholders (mostly C-Market workers) were eager to sell their shares, which they had received for free, at any price. Shareholders had been unable to sell shares at that time as trading of C-Market shares was halted by a Commercial Court decision which Radulovic reportedly engineered using connections with court judges. Small shareholders were also under constant threat of being fired by Director Radulovic if they did not cooperate with his efforts. This enabled Radulovic to control C-Market although he had only a few percent of shares in his hands. Through this deal, profit was transferred directly from shareholders and state to the pocket of Beko and Miskovic.

Profit Transfer from Shareholders & State to Tycoons

¶8. Kostunica's main incentive to push the deal, according to Beko's testimony, was to avoid repeating the scandal that happened when international firms were rebuffed in favor of local purchasers in the privatization of bottled water firm Knjaz Milos. The deal enabled large profits for tycoons who finance most of the major political parties including Kostunica's DSS. Radulovic claims in his letter that Beko and Miskovic earned \$210 million directly and \$420 million indirectly through this deal.

Comment

19. The C-Market saga is one illustration of the complex web of political and economic connections that are pervasive in the Serbian economy. In Serbia, rivals sometimes find it convenient/lucrative to cooperate (whether tycoons or politicians) to achieve their own objectives. The candid testimony from Beko, with corroborating testimony and documents, provides an example of how parts of the Serbian economy have been distorted through corruption and political insiders. Serbia's economic transformation continues, but the legacy of the 1990's has concentrated wealth and powerful interests that shape the political and economic landscape of today. End Comment.

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